

31.201-3 Determining reasonableness.

(a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Reasonableness of specific costs *must* be examined with particular care in connection with firms or their separate divisions that *may* not be subject to effective competitive restraints. No presumption of reasonableness *shall* be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the *contracting officer* or the *contracting officer's* representative, the burden of proof *shall* be upon the contractor to establish that such cost is reasonable.

(b) What is reasonable depends upon a variety of considerations and circumstances, including-

(1) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance;

(2) Generally accepted sound business practices, arm's-length bargaining, and Federal and State laws and regulations;

(3) The contractor's responsibilities to the Government, other customers, the owners of the business, employees, and the public at large; and

(4) Any significant deviations from the contractor's established practices.

Parent topic: [31.201 General](#).